

PROVINCE OF SASKATCHEWAN



10-11

ANNUAL REPORT

**SASKATCHEWAN PENSION
ANNUITY FUND**



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This annual report is available in electronic format at www.peba.gov.sk.ca

Letters of Transmittal



His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2011.

A handwritten signature in black ink, appearing to read "Ken Krawetz".

Ken Krawetz
Minister in Charge
Saskatchewan Pension Annuity Fund

The Honourable Ken Krawetz
Minister in Charge
Saskatchewan Pension Annuity Fund

Sir:

On behalf of the Saskatchewan Pension Annuity Fund Board, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2011.

A handwritten signature in black ink, appearing to read "Brian Smith".

Brian Smith
Board Chair

Chair's Comments

It is my privilege to serve as Chair for the Saskatchewan Pension Annuity Fund Board (the Board). I am pleased to present the 2010-2011 Saskatchewan Pension Annuity Fund (SPAF) Annual Report.

SPAF was originally established by section 43.1 of *The Superannuation (Supplementary Provisions) Act* as the Public Employees (Government Contributory) Annuity Fund. It became known as SPAF with the inception of *The Saskatchewan Pension Annuity Fund Act* on July 1, 1997.

On April 1, 2005, the Board was established. The Board's responsibilities include administration of the Act and Plan, and management and operations of the Fund. Three members are on the Board.

The Board set strategic initiatives from 2007 to 2010. This Annual Report provides details on those initiatives, as well as the Plan's most recent accomplishments and new activities planned through to 2011 are detailed. This is the third year in which there has been reporting on SPAF strategic initiatives.

On behalf of the Board, I am pleased to present the 2010-2011 Annual Report for the Saskatchewan Pension Annuity Fund Board.



Brian Smith
Board Chair

Introduction

The Saskatchewan Pension Annuity Fund (SPAF) was created for members of the Public Employees Pension Plan (PEPP) who want to purchase an annuity as their source of retirement income. *The Saskatchewan Pension Annuity Fund Act* governs SPAF.

The Fund provides members of PEPP with a life annuity paid for the life of the annuitant based on:

- the market conditions at the time the annuity is purchased;
- amount used to purchase the annuity;
- annuitant's and annuitant's spouse's age;
- guarantee period; and
- survivor benefit.

Once an annuity has been issued, neither the annuitant nor the Plan can change terms of the agreement.

Any deficiencies in the Plan are paid out of the General Revenue Fund and are the responsibility of the Government of Saskatchewan.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency (PEBA) Revolving Fund and are charged to SPAF.

Saskatchewan Pension Annuity Fund Board

Effective April 1, 2005, the Saskatchewan Pension Annuity Fund Board (the Board) was established to administer the Fund. The Board, which consists of three members appointed by the Minister of Finance, is responsible for the administration of *The Saskatchewan Pension Annuity Fund Act*. At March 31, 2011, the Board was composed of the members listed in *Table 1.1*.

Saskatchewan Pension Annuity Fund Board Members	
Brian Smith	Chair
Clare E. Isman	Member, resigned March 2011
Lori Taylor	Member

Table 1.1

Members of the Board receive no compensation for the performance of their roles as Board members. They are remunerated for reasonable expenses for attending Board meetings and other functions in their capacity as Board members.

Contracted Services

The Board is ultimately responsible for the Fund's administration, communication and investment activities. To discharge these responsibilities, the Board uses the services of various organizations.

Under agreement with the Board, PEBA, provides administrative services for the Fund. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefit plans.

Under agreement with the Board, PEBA:

- provides annuity estimates;
- calculates annuity and death benefits;
- prepares statements upon a member's death;
- accounts for all investment transactions; and
- provides executive management services to the Board.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Saskatchewan Pension Annuity Fund Act*, *The Pension Benefits Act, 1992*, and their related regulations.

The Board retains RBC Dexia Investor Services Trust as the Plan custodian and Aon Hewitt as the investment consultant. The Board also retains Greystone Managed Investments, Inc. as the investment manager and AON Hewitt as the actuary.

Purpose

The purpose of the Fund is to provide annuity payments to pensioners who have chosen to purchase annuities through the Fund.

Mission

The Board's mission as the Fund's trustee is to manage the assets and expenses solely in the best interests of the pensioners and their beneficiaries.

Business Initiatives

In June 2009, the Saskatchewan Pension Annuity Fund Board adopted a business plan for the period 2009-2010 to 2014-2015. The Board's business goals as stated in its business plan are:

- **Service Delivery, Design and Communications:** Members of the Public Employees Pension Plan have access to information about purchasing annuities from the Fund. Pensioners and their beneficiaries have access to information about the Fund.
- **Plan Governance:** The Board's governance processes ensure the Board has the information needed to provide effective oversight of the Fund.
- **Accountability:** The activities of the Board and its service providers are reported.
- **Risk Management:** Risks facing the Fund are identified and effective strategies are employed to manage those risks.

The initiatives used to support these goals and associated objectives are not generally time bound. Rather, they are initiatives that are required to be undertaken on an ongoing basis.

The following section provides information on activities planned and accomplished in 2010-2011 in support of the Board's initiatives and goals, as set out in the SPAF Business Plan 2009-2010 to 2014-2015.

Business Initiatives

A. Service Delivery, Design and Communications

The Board recognizes that the delivery and design of services and communications focus on two different groups which have very different needs. The first group consists of the members of the Public Employees Pension Plan, the only group eligible to purchase annuities from the Fund. The members of this group are not members of the Fund; however, monies of the Fund have to be expended to ensure this group has information regarding annuities underwritten by the Board. The Board recognizes that this group is dynamic and will require different methods of communication.

The second group is pensioners and beneficiaries receiving annuity payments from the Fund. On an ongoing basis, pensioners' and beneficiaries' primary needs are met by providing annuity payments and annual tax reporting information.

Activities Planned and Accomplished in 2010-2011

- Determine whether information about purchasing annuities from the Fund communicated to members of PEPP can be improved.
 - SPAF materials are being reviewed as part of the "lifecycle" communication approach, which will target specific communications at members of SPAF and the Public Employees Pension Plan by member demographic group based on the needs typical of that group, the needs of retiring members being different than the needs of younger members.

- Ensure pensioners and beneficiaries have access to information regarding the Fund.
 - *Information regarding the Fund is posted to the website. The "lifecycle" communication review will make accessing information on the Fund easier for pensioners and beneficiaries.*

Activities Planned for 2011-2012

- Ensure pensioners and beneficiaries have access to information regarding the Fund.

Business Initiatives

B. Plan Governance

The Board's governance processes ensure the Board has the information needed to provide effective oversight of the Fund.

The Board has developed its governance practices and policies in recent years. The Board will continue to implement and maintain its governance program.

Activities Planned and Accomplished in 2010-2011

- Continue development of a policy manual.
 - *Research into priority issues commenced in preparation for policy development in 2011-2012.*

Activities Planned for 2011-2012

- Continue development of a policy manual.

Business Initiatives

C. Accountability

Effective Fund management requires a strong focus on accountability, the basis of which is the establishment of measurable objectives and the monitoring of progress against these objectives. To ensure accountability, the reporting of results is critical.

The Board has established administration service standards and a Statement of Investment Policies and Goals for the Fund.

Activities Planned and Accomplished in 2010-2011

- Continue to enhance the Board's annual report.
 - *Investigation into providing the annual report in an updated format commenced.*
- Continue to enhance the Fund's website.
 - *The Fund's website will be updated as part of the review by the Public Employees Pension Plan of its communication to members.*

Activities Planned for 2011-2012

- Continue to enhance the Board's annual report.
- Continue to enhance the Fund's website.

Business Initiatives

D. Risk Management

Effective governance requires a strong focus on risk management, the basis of which is the identification and quantification of risks and the development and implementation of effective strategies to manage the risks.

The Board has established an annual risk management planning process. This includes the identification of risks and the development and implementation of strategies to manage the risks. The Board also annually reviews the results of its risk management process.

Activities Planned and Accomplished in 2010-2011

- Continue the annual risk planning and review processes.
 - *In June 2010, the Board reviewed and approved the Risk Management Review for the year ended March 31, 2010 and approved the Risk Management Plan for 2010-2011.*

Activities Planned for 2011-2012

- Continue the annual risk planning and review processes.

Annuity Fund

Investment of Funds

The Board is responsible for holding in trust and investing the monies in the Fund. The Board has retained Greystone Managed Investments, Inc. as its investment manager.

Greystone Managed Investments, Inc. continues to manage an immunized bond portfolio (see objectives below).

The investment manager makes the day-to-day decision of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Board. It is these long term investment performance objectives that the Board uses to assess the performance of the investment managers.

The investment objectives are:

- to structure the investment portfolio so that the Fund's net assets are immune to changes in the level of interest rates;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve those objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -0.5 to +0.5 years of the duration target;
- the portfolio includes sufficient short term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Board has retained RBC Dexia Investor Services Ltd. as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (i.e., dividends, interest) is collected and provides financial information for all investment transactions.

The Board engages the services of an asset consultant to provide advice on the overall management of the Fund's investments and on the measurement of the Fund's performance. Aon Hewitt provides this service to the Board.

Fund Administration

The Board has delegated the day-to-day administration of the Fund and management of its assets to PEBA. The cost for this is charged to the Fund.

PEBA is a branch of the Ministry of Finance. PEBA administers a wide range of pension and benefit plans.

Under agreement with the Board, PEBA provides all services required to operate, administer and manage the Fund in a manner consistent with and according to all statutory provisions and regulations that apply to the Fund. PEBA reports measurement against standards to the Board quarterly. *Table 1.2* provides measurement results for the 2010-2011 year.

PEBA also provides Senior Executive Officer services and Executive Secretary services to the Board.

In 2010-2011, the Board paid PEBA \$178,000 for administrative services.

Annuities

During the 2010-2011 fiscal year the Fund paid a total of \$13,708,000 in annuities to 1,963 members or spouses of members.

Figure 1.1 shows the number of annuitants and beneficiaries receiving survivor benefits in the Fund as of the current year-end.

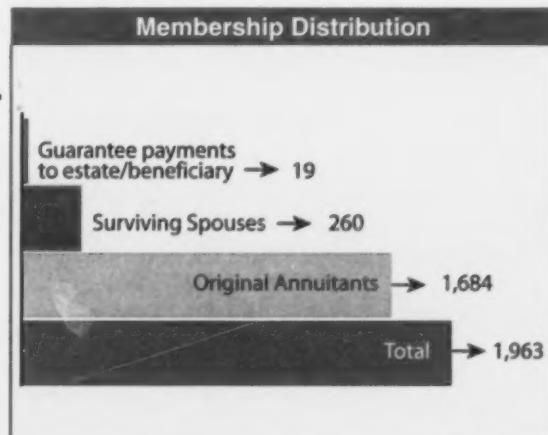


Figure 1.1

PEBA reports measurement of service standards to the Board on a quarterly basis. *Table 1.2* provides measurement results for 2010-2011.

PEBA Service Standards April 1, 2010 to March 31, 2011					
Task	Completed	Number that Meet or Exceed Standard	% that Meet or Exceed Standard	Standard* (Days)	Statutory Requirement** (Days)
Statement on retirement	30	29	96.7	5	90
Statement on death	30	28	93.3	5	90
Payment of death benefits	9	9	100.0	5	-
Annuity estimates for PEPP members	689	678	98.4	5	-
Spousal break down calculations	0	0	N/A	5	-
Written correspondence ***	Not measured	Not measured	N/A	5	-
Total	758	744	98.2	-	

* Standard is set within "Schedule A" of the agreement between the Board and PEBA.

** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992 and Regulations, 1993*.

*** The majority of written correspondence is received by PEPP Inquiry e-mail. The PEPP Inquiry e-mail receipts and responses are monitored daily by the Assistant Manager.

Table 1.2

Management's Report

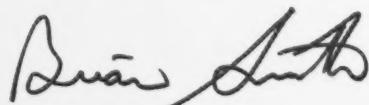
To the Members of the Legislative Assembly of Saskatchewan

The Saskatchewan Pension Annuity Fund Board consists of three appointments made by the Minister of Finance. The Board is comprised of a Chairman and two other members, each appointed by the Minister. The Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Board. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Fund.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events, which require approval by management.

The financial statements have been audited by the Provincial Auditor whose report follows.



Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency



Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency



Kara Marchand, CMA
Director, Corporate Services
Public Employees Benefits Agency

Regina, Saskatchewan
June 20, 2011

Actuaries' Opinion

Aon Hewitt was retained by the Public Employees Benefits Agency (PEBA) to perform an actuarial valuation of the accumulated provision for annuities payable from the Saskatchewan Pension Annuity Fund (Fund) on an accounting basis as at March 31, 2011.

The actuarial valuation of the Fund's accumulated provision for annuities payable was based on:

- Membership and asset data provided by the Public Employees Benefits Agency as at March 31, 2011;
- Assumptions about future demographic events which were developed by management and Aon Hewitt and are considered as management's best estimate of these events; and
- A discount rate chosen to be consistent with the asset values reported in the Fund's financial statements.

While the actuarial assumptions used to estimate the accumulated provision for annuities payable for the Fund's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Fund's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Fund.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. In our opinion the methods employed in the valuation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice.



David R. Larsen, FSA, FCIA
Aon Hewitt

June 20, 2011

Saskatchewan Pension Annuity Fund Board
Saskatchewan Pension Annuity Fund

Financial Statements

Year Ended March 31, 2011

Independent Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Saskatchewan Pension Annuity Fund, which comprise the statement of financial position as at March 31, 2011, and the statements of operations and net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

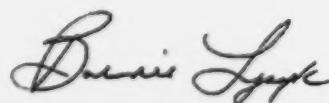
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Saskatchewan Pension Annuity Fund as at March 31, 2011, and the results of its operations, net assets, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Bonnie Lysyk, MBA, CA-CIA
Provincial Auditor

Regina, Saskatchewan
June 20, 2011

**Saskatchewan Pension Annuity Fund
Statement of Financial Position**

Statement 1

As At March 31

	(000's)	
	2011	2010
ASSETS		
Investments (Note 3)		
Short-term	\$ 106	\$ 358
Bonds and debentures	<u>167,926</u>	<u>164,708</u>
	<u>168,032</u>	<u>165,066</u>
Receivables		
Accrued investment income	2,139	2,210
Early retirement benefits receivable from employer	11	1
	<u>2,150</u>	<u>2,211</u>
Due from General Revenue Fund (Note 4)	53	54
Total Assets	<u>\$170,235</u>	<u>\$167,331</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Administration expenses payable	\$ 73	\$ 84
Accumulated provision for annuities payable (Note 5)	<u>168,467</u>	<u>167,079</u>
Total Liabilities	<u>168,540</u>	<u>167,163</u>
Net Assets (Statement 2)	<u>1,695</u>	<u>168</u>
Total Liabilities and Net Assets	<u>\$170,235</u>	<u>\$167,331</u>

(See accompanying notes to the financial statements)

**Saskatchewan Pension Annuity Fund
Statement of Operations and Net Assets**

Statement 2

Year Ended March 31

	(000's)	
	2011	2010
REVENUES		
Transfers from designated plan	\$ 5,538	\$ 3,218
Interest income	7,678	7,877
Change in fair value of investments	3,724	(1,345)
Total Increase in assets	16,940	9,750
EXPENSES		
Change in accumulated provision for annuities payable (Note 5)	1,388	(4,830)
Annuities	13,708	13,618
Administration (Note 6)	317	328
Total decrease in assets	15,413	9,116
Net increase in assets for the year	1,527	634
Net Assets (Deficit), beginning of year	168	(466)
Net Assets, end of year (Statement 1)	\$ 1,695	\$ 168

(See accompanying notes to the financial statements)

**Saskatchewan Pension Annuity Fund
Statement of Cash Flows**

Statement 3

Year Ended March 31

	(000's)	
	2011	2010
Cash flows from (used in) operating activities:		
Transfers from designated plan	\$ 5,539	\$ 3,225
Interest income received	7,749	7,958
Annuities paid	(13,708)	(13,618)
Administration expenses paid	(328)	(301)
Early retirement benefits paid	(68)	(83)
Early retirement benefits received	56	83
	<hr/> (760)	<hr/> (2,736)
Cash flows from (used in) investing activities:		
Purchase of investments	(29,386)	(16,937)
Proceeds from disposal of investments	<hr/> 30,145	<hr/> 19,664
	<hr/> 759	<hr/> 2,727
Net (decrease) in Due from General Revenue Fund	 (1)	 (9)
Due from General Revenue Fund, beginning of year	 <hr/> 54	 <hr/> 63
Due from General Revenue Fund, end of year	 <hr/> \$ 53	 <hr/> \$ 54

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund Notes to the Financial Statements

March 31, 2011

1. Description of Fund

The Saskatchewan Pension Annuity Fund (Fund) is established under *The Saskatchewan Pension Annuity Fund Act* (Act). The Act establishes the Saskatchewan Pension Annuity Fund Board (Board) to administer the Fund. The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA).

The purpose of the Fund is to provide annuities to members of designated pension plans. Currently, the only designated pension plan is the Public Employees Pension Plan. Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant:

a) Investments

Investments are stated at fair value. The change in the fair value of investments at the beginning and end of each year is reflected in the statement of operations and net assets as change in fair value of investments.

Fair value of investments is determined as follows:

Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short- term nature of these investments.

Bonds and debentures are valued at year-end quoted bid prices from recognized security dealers.

b) Investment Income and Investment Transactions

Investment income is recorded on the accrual basis. Investment transactions are recorded on the trade date.

c) Accumulated Provision for Annuities Payable

The accumulated provision for annuities payable represents the present value of the annuities underwritten and is determined pursuant to an annual actuarial valuation.

Any resulting change in the accumulated provision for annuities payable pursuant to the valuation is recognized in the statement of operations and net assets.

d) Future Accounting Policy Changes

In April 2010, the Accounting Standards Board of the Canadian Institute of Chartered Accountants approved Section 4600, Pension Plans, as Part IV of the Handbook. The new section is based on the existing Section 4100, Pension Plans, in Part V of the Handbook, with the same substantive modifications including increased disclosures. The standards also apply to benefit plans with characteristics similar to pension plans that provide benefits. The standards apply for annual financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. The Plan is evaluating the impact that these new standards will have on its financial statements.

e) Financial Assets and Liabilities

Financial assets classified as held for trading are measured at fair value and changes in fair value are recognized in the statement of operation and net assets. Investments and Due from General Revenue Fund are designated as held for trading. For Due from General Revenue Fund, its fair value is determined at cost which approximates market value.

Loans and receivables, and other financial liabilities are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

The fair value of the accumulated provision for annuities payable cannot be readily determined, however information about the estimated provision is provided in note 5.

3. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Short-term Investments

Short-term investments are comprised of treasury bills and notes with effective rates of 0.98% (2010 – 0.40%) and an average remaining term to maturity of 70 days (2010 – 1 day). The Fund's investment policy states that investments must meet a minimum investment standard of "R1" as rated by a recognized credit rating service.

Bonds and Debentures

The Fund's investment policy states that federal and provincial government bonds and debentures must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the par value of the bond portfolio may be invested in BBB rated bonds. No more than 10% of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 2011, the Fund held 2.16% (2010 – 2.25%) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service.

Years to Maturity	(000's)						Total Market Value	Effective Interest Rate	Coupon Rate			
	Market Value			Effective Interest Rate	Coupon Rate							
	Federal	Provincial	Corporate		Total							
Under 1	\$ 771	\$ 2,814	\$ —	\$ 3,585	1.22	0.00-6.00	\$ 278	0.75	8.75-9.50			
1 - 5	6,990	20,991	2,867	30,848	2.42	0.00-11.25	26,883	2.50	0.00-10.25			
5 - 10	8,660	26,379	—	35,039	3.62	0.00-10.60	39,617	3.81	0.00-11.25			
Over 10	27,071	70,620	763	98,454	4.22	0.00-9.92	97,930	4.54	0.00-10.50			
Market Value	\$ 43,492	\$ 120,804	\$ 3,630	\$ 167,926			\$ 164,708					

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Fair Value

The Fund has classified its required fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Fund's required financial instruments within a fair value hierarchy:

(000's of dollars)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	\$ -	\$167,926	\$ -	\$167,926
Short-term	106	-	-	106
Total	\$ 106	\$167,926	\$ -	\$168,032

4. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty day borrowing rate and the Fund's bank account balance. The Government's average thirty day borrowing rate for the current year was 0.80% (2010 – 0.27%).

5. Accumulated Provision for Annuities Payable

The actuarial present value of annuities payable was determined using the administrator's best estimate of future investment performance and inflation. An actuarial valuation was performed as at

March 31, 2011 by Aon Hewitt. The assumptions used in determining the actuarial present value of annuities payable were:

	<u>2011</u>	<u>2010</u>
Discount rate	4.20%	4.50%
Mortality	95% of UP94	95% of UP94
Expense allowance	2.4% of annuities payable	2.4% of annuities payable

The annual change in the accumulated provision for annuities payable is reflected in the statement of operations and net assets. The principal components of the change to the accumulated provision for annuities payable during the year were as follows:

	(000's)	
	<u>2011</u>	<u>2010</u>
Accumulated provision for annuities payable, beginning of year	\$167,079	\$171,909
Interest on annuities payable	7,209	7,261
New annuities purchased in the year	4,836	2,949
Change in estimated future administration costs	-	163
Expected annuity payments	(13,455)	(13,464)
Data correction and experience (gain)	(1,632)	(237)
Change in assumed discount rate	4,430	(1,502)
Accumulated provision for annuities payable, end of year	<u>\$168,467</u>	<u>\$167,079</u>

Actual results may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that changes in future conditions in the near term could require a material change in the annuities payable. A 1% increase in the discount rate would decrease the liability \$14.0 million (2010 - \$13.8 million) and a 1% decrease in the discount rate would increase the liability \$16.4 million (2010 - \$16.2 million).

The expected cash inflows from investment income and disposal of investments at maturity and the expected cash outflows to pay the annuities and administration expenses are calculated using the above assumptions. The expected net cash flows are based on actual dollar forecasts without any provision for inflation and they do not allow for future annuitants. The estimated net cash inflows/(outflows) for the next 5 years are (\$1.3 million), for the next 10 years \$1.4 million and for the next 30 years \$6.3 million. The expected duration for investments is 8.74 years and for the accumulated provision for annuities payable is 8.97 years.

6. Administration Expenses

	(000's)			
	2011		2010	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Administration costs	\$240	\$178	\$208	\$192
Custodial fees – RBC Dexia Investment Services Trust	8	8	8	8
Investment management fees - Greystone Managed Investments Inc.	135	131	127	128
	<u>\$383</u>	<u>\$317</u>	<u>\$343</u>	<u>\$328</u>

7. Financial Risk Management

The nature of the Fund's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Fund's investments. These financial risks are managed by having an investment policy, which is approved annually by the Board. The investment policy provides guidelines to the Fund's investment managers for the asset mix of the portfolio regarding quality and quantity of investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Board reviews regular compliance reports from its investment managers as to their compliance with the investment policy. The Board also reviews regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Fund's credit risk arises primarily from two distinct sources: accounts receivable and investments. The maximum credit risk to which it is exposed at March 31, 2011 is limited to the carrying value of the financial assets summarized as follows:

	(000's)	
	<u>2011</u>	<u>2010</u>
Receivables	\$ 2,150	\$ 2,211
Investments	168,032	165,066
Due from the General Revenue Fund	53	54

Accounts receivable are primarily made up of accrued investment income. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is related to short-term investments, bonds and debentures. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds and debentures are as follows:

Credit Rating	2011		2010	
	Fair Value (000's)	Makeup of Portfolio (%)	Fair Value (000's)	Makeup of Portfolio (%)
AAA	\$59,311	35.32	\$ 47,229	28.67
AA	83,581	49.78	88,661	53.83
A	24,223	14.42	27,985	16.99
BBB	811	0.48	833	0.51
Total	\$167,926	100.00	\$164,708	100.00

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 1.22% of the market value of the combined bonds and debentures and short term investment portfolios. No one holding of a province is over 5.23% of the market value of the investment portfolio.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates and foreign exchange rates. Market risk primarily impacts the value of investments.

Interest rate risk

The Fund is exposed to changes in interest rates in its fixed income investments, consisting of short-term investments and bonds and debentures. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point change in interest rates would change net assets by \$14.6 million at March 31, 2011; representing 8.70% of the \$168 million fair value of fixed income investments.

Securities collateral

At March 31, 2011, no Fund assets have been deposited or pledged as collateral or margin. As part of the Fund's securities lending strategy, collateral has been pledged to the Fund by various counterparties for securities out on loan to the counterparties. At March 31, 2011, the total amount of collateral pledged to the Fund amounted to \$16.2 million (2010 - \$27.6 million).

Security lending obtains collateral of at least 105% of the market value of the securities lent. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Fund is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

8. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the PEBA Revolving Fund. Related party transactions with the Fund are in the normal course of operations and are recorded at exchange amounts agreed to by the parties to the transactions.

The Fund holds \$844,633 (2010 - \$791,819) Province of Saskatchewan Bonds and Debentures with a yield of 3.30% (2010 – 3.80%). Investment income including change in the market value of \$52,814 (2010 - \$34,515) was recorded from the Province of Saskatchewan Bonds and Debentures.

At year-end, the Fund has an accounts receivable from the PEBA Revolving Fund of \$254 (2010 – accounts payable of \$17,477).

Section 47.5 of the *Superannuation (Supplementary Provisions) Act* authorizes employers to provide early retirement benefits to eligible employees. The Fund pays these early retirement benefits to retired members of the Public Employees Pension Plan on behalf of employers. During the year, the Fund provided early retirement benefits of \$68,160 and received \$56,210 reimbursement from the employers with an additional amount of \$11,950 still receivable. These transactions are not included in the statement of operations and net assets.

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.

9. Comparative Figures

Certain prior year balances have been reclassified to conform with the current year's financial statement presentation.



